Guardian Capital Group Limited

Annual Report 1976

Financial Highlights

December 31st:	1976	1975	1974	1973	1972
Value of Managed Assets ($ millions)					
Pension fund portfolios	$134.0	$111.5	$ 82.3	$ 74.6	$ 35.6
Mutual fund and private client portfolios	65.6	76.0	68.8	97.3	128.7
Total	199.6	187.5	151.1	171.9	164.3
Total per Guardian share outstanding	$177.63	$135.9	$ 94.03	$107.00	$122.00
Value of Owned Portfolio Assets ($ millions)					
Gdn. Ventures Limited	$ 1.7	$ 3.1	$ 2.9	$ 4.8	$ 5.5
Guardian Growth Financial Services Limited (market value)	2.7	2.8	2.7	2.6	0.5
Other tangible net assets	.9	0.3	1.0	0.9	0.8
Total tangible net assets (excluding the value of the earning power of the portfolio management subsidiaries)	5.3	6.2	6.6	8.3	6.8
Total per Guardian share outstanding	$4.72	$ 4.50	$ 4.10	$ 5.16	$ 5.06
Revenues and Earnings					
Gross revenues	1,790,475	$1,704,897	$1,879,377	$1,843,125	$1,760,749
Operating earnings	511,480	428,936	711,028	562,875	749,968
Net gain (loss) on investments	45,662	(102,472)	314,015	260,211	(98,132)
Pre-tax earnings	557,142	326,464	1,025,043	823,068	651,836
Net earnings	331,568	61,446	601,916	505,018	263,616
Net earnings per Guardian shares outstanding	$ 0.27	$ 0.04	$ 0.37	$ 0.32	$ 0.22
Year end shares	1,123,662	1,379,628	1,606,528	1,606,528	1,346,778

To the Shareholders

The year 1976 was a rather active one for your company. In the first quarter of the year we completed various transactions arising out of the decision to phase out our venture capital activities. In April, we set out to repurchase some of the company's own shares; this transaction was eventually completed, but in a somewhat different way, and at a rather higher overall price than was originally intended. In the second quarter also, your company gained a new institutional shareholder, whose association is proving to be most helpful to your management.

In the "owned asset" area, our holding in Digital Telephone Systems became, as forecast, a holding in Farinon Electric in the first part of the year. In the second half of the year considerable activity developed around our holdings in Global Communications Limited and I.W.C. Communications Limited.The outcome of these negotiations was that we sold in 1977 our small interest in Global at a substantial gain over cost, and continue to have an active involvement in the now "cash-rich" I.W.C.

The activity which involves most of your company's officers and employees on a full-time basis, continues, of course, to be our fiduciary money management business. There, trends continued in force as in previous years. Pension fund assets under management showed worthwhile growth, while mutual fund assets tended to decline. Your company earned some supplementary fees or performance bonuses from management of these client assets. Your company has begun to offer selective advisory services to certain specialized institutional pools of capital. We believe that there is additional scope for a certain amount of this sort of activity.

Our corporate goals today can be summarized as follows:

1 To provide the best fiduciary portfolio management service we possibly can to both Canadian and "free-to-roam" portfolios, with the objective of maintaining good client relationships, and of earning useful performance bonuses.

2 To manage our portfolio of owned assets in an efficient and rigorous way in highly marketable investments, in interesting special situations, and from time to time in "investment banking" opportunities with the objectives of earning a reasonable current income return, and over the months and years, a reasonably steady series of realized capital gains, while increasing the overall value of the company's assets.

3 To pay out to our shareholders in dividends a rather high percentage of net after tax earnings.

In this latter regard, your directors, on April 6, 1977, declared a tax-paid dividend of $0.20 per share to shareholders of record April 19, 1977, payable April 29, 1977.

On behalf of the Board,
Yours sincerely,

Norman Short

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Balance Sheet

as at December 31, 1976

	1976	1975
Assets		
Investments		
Merchant banking	**$ 2,323,961**	$ 1,497,749
Venture capital	**1,308,308**	1,943,142
Associated company	**63,644**	46,576
Other	**53,618**	63,184
	3,749,531	3,550,651
Cash and short-term deposits	**1,332,759**	3,080,748
Receivables	**438,999**	224,678
Income taxes recoverable	**705**	14,132
Prepaid expenses	**31,017**	29,656
Fixed assets (Notes 3 and 4)	**221,579**	119,396
Deferred selling costs	**36,990**	62,680
Goodwill – at cost	**2,759,736**	2,759,736
	$ 8,571,316	$ 9,841,677
Liabilities		
Accounts payable and accrued expenses	**$ 176,796**	$ 149,552
Payable on acquisition of Company's capital stock	**–**	174,713
Deferred income taxes	**92,900**	50,149
Long-term debt (Note 4)	**210,583**	140,000
	480,279	514,414
Minority shareholders' interest in subsidiaries	**13,696**	411,879
Shareholders' Equity		
Capital stock (Notes 5, 6 and 7)		
Authorized – 2,773,100 shares without par value		
Issued and fully paid – 1,379,628 shares (1975 – 1,606,528 shares)	**6,413,380**	7,468,465
Contributed surplus	**603,262**	414,177
Retained earnings	**2,219,723**	1,888,155
	9,236,365	9,770,797
Less: 255,966 shares owned by the Company (1975 – 226,900 shares)	**1,159,024**	855,413
	8,077,341	8,915,384
	$8,571,316	$ 9,841,677

The accompanying notes are an integral part of this financial statement.

Signed on behalf of the board
Norman J. Short, *Director*
Hunter E. Thompson, *Director*

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Contributed Surplus

for the year ended December 31, 1976

	1976	1975
Balance – Beginning of year	**$ 414,177**	$ 414,177
Add:		
Gain on cancellation of Company's capital stock acquired during 1975 (Note 5)	**199,672**	–
Issue of subsidiary's share purchase warrants	**460**	–
	614,309	414,177
Deduct:		
Acquisition of Company's share purchase warrants (Note 7)	**11,047**	–
Balance – End of year	**$ 603,262**	$ 414,177

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Earnings and Retained Earnings

for the year ended December 31, 1976

	1976	1975
Income		
Basic management fees	**$ 1,418,005**	$ 1,332,709
Supplementary management fees	**124,376**	99,783
Sales charges (Net)	**14,455**	31,258
Interest and dividends	**233,639**	241,147
	1,790,475	1,704,897
Operating expenses	**1,278,995**	1,275,961
	511,480	428,936
Net gain (loss) on investments	**45,662**	(102,472)
	557,142	326,464
Provision for income taxes		
Current	**199,639**	275,278
Deferred	**42,751**	(16,800)
	242,390	258,478
	314,752	67,986
Equity in net earnings of associated company	**17,068**	3,354
	331,820	71,340
Minority interest	**252**	9,894
Net earnings for the year	**331,568**	61,446
Retained earnings – Beginning of year	**1,888,155**	1,826,709
Retained earnings – End of year	**$ 2,219,723**	$ 1,888,155
Earnings per share (Note 8)	**27¢**	4¢

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Changes in Net Assets

for the year ended
December 31, 1976

	1976	1975
Net assets – Beginning of year	**$ 9,327,263**	$10,111,336
Increased by –		
Net earnings for the year	**331,568**	61,446
Minority interest in earnings	**252**	9,894
Issue of subsidiary's share purchase warrants	**460**	–
	332,280	71,340
Decreased by –		
Acquisition of Company's capital stock (Note 5)	**1,503,024**	855,413
Deduct: Capital stock reissued (Note 5)	**344,000**	–
	1,159,024	855,413
Acquisition of subsidiary's capital stock from minority interest (Note 2)	**398,435**	–
Acquisition of Company's share purchase warrants	**11,047**	–
	1,568,506	855,413
	1,236,226	784,073
Net assets – End of year	**$ 8,091,037**	$ 9,327,263
Represented by –		
Shareholders' equity	**$ 8,077,341**	$ 8,915,384
Minority shareholders' interest in subsidiaries	**13,696**	411,879
	$ 8,091,037	$ 9,327,263

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Merchant Banking Investments

as at December 31, 1976

	1976			1975		
	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value
Quoted investments						
Large companies						
Bell Canada	2,200	$ 103,758	$ 105,600	–	$ –	$ –
Levi Strauss and Company	–	–	–	2,800	101,570	114,548
Scott and Fetzer Company	–	–	–	2,500	48,864	46,373
Warner Communications	–	–	–	4,700	101,125	84,793
Other		199,245	203,007	–	–	–
Medium sized companies						
Asbestos Corporation	1,500	43,379	34,125	–	–	–
Kerr Glass	8,000	137,325	130,187	–	–	–
Ocelot Industries "A"	10,000	62,258	88,750	–	–	–
Ocelot Industries "B"	25,000	153,910	221,875	–	–	–
IWC Communications	50,000	95,013	95,500	2,400	3,421	3,420
Interway Corporation	10,000	103,825	127,412	8,000	72,593	42,689
National Medical Enterprises "A"	14,000	137,248	183,674	17,600	169,993	131,929
Pan Continental Mining	7,000	22,066	61,390	10,000	12,198	111,800
Readers' Digest	10,000	121,443	115,000	–	–	–
Xtra Inc.	7,000	84,606	113,913	–	–	–
Small companies						
Auric Resources	339,667	65,640	75,421	333,499	64,043	76,704
Bulora Corporation	63,300	63,300	8,704	63,300	63,300	31,650
Cultus Pacific	315,000	22,957	39,690	235,000	12,530	39,010
Interpublishing	100,000	100,000	108,332	–	–	–
Multiple Access	10,000	34,445	33,000	–	–	–
Newmark Resources	515,258	470,380	206,103	600,000	495,696	369,000
Ziebart Corporation	–	–	–	25,000	42,633	19,750
Other	–	–	–	–	7,783	8,233
		2,020,798	$1,951,683		1,195,749	$1,079,899
Equity lending – unquoted						
Global Communications –						
Interest Debentures (1.2% above prime) 15/01/83	$ 200,000	201,163		$ 200,000	200,000	
Income Debentures 15/01/98	$ 2,000	2,000		$ 2,000	2,000	
Ziebart Corporation – 9% debentures 31/12/77	$ 100,000	100,000		$ 100,000	100,000	
		303,163			302,000	
Total merchant banking investments		2,323,961			1,497,749	
Cash and other net assets – Attributable to merchant banking operation		435,248			1,296,916	
Total merchant banking net assets		$2,759,209			$2,794,665	

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Venture Capital Investments

as at December 31, 1976

	1976			1975		
	Number of Shares or Par Value	**Average Cost Less Allowance For Losses**	**Market Value**	Number of Shares or Par Value	Average Cost Less Allowance For Losses	Market Value
Quoted investments						
Farinon Electric	**103,350**	**$1,238,558**	**$1,303,760**	–	$ –	$ –
MDS Health Group	**–**	**–**	**–**	173,139	224,954	408,821
Keydata Corporation	**–**	**–**	**–**	20,333	163,748	71,166
		1,238,558	**$1,303,760**		388,702	$ 479,987
Unquoted investments						
Instinet	**26,500**	**39,750**		26,500	39,750	
Digital Telephone Systems	**–**	**–**		220,647	1,484,690	
Other		**30,000**			30,000	
		69,750			1,554,440	
Total Venture Capital investments		**1,308,308**			1,943,142	
Cash and other net assets – Attributable to Venture Capital operation		**349,246**			1,495,192	
Total Venture Capital net assets		**$1,657,554**			$3,438,334	

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended December 31, 1976

1 Summary of significant accounting policies

(a) *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) *Associated Company*

The Company has used the equity method of accounting to reflect its investment in a 50% owned associated company.

(c) *Investments*

The investments, except for the investment in the associated company referred to in Note 1(b), are recorded at average cost, less any allowance for losses. The allowance for losses relates to those investments which have declined in value and show no reasonable expectation of recovery.

The net gain or loss on investments shown on the earnings statement represents the realized gains and losses on investments sold and the provision for losses for the year.

(d) *Fixed Assets*

The majority of the furniture and equipment is depreciated on the diminishing balance method at the rate of 20% per annum.

Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Revenue-producing video tapes are amortized on a straight-line basis over three years, which is the estimated period during which any significant income from the tapes can be anticipated.

(e) *Deferred Selling Costs*

The deferred selling costs represent the unamortized cost of prepaying obligations under long-term sales contracts. These costs are amortized over the period which remained under these contracts at the time of their renegotiation.

(f) *Goodwill*

The excess of cost of shares in subsidiaries over the net book value of the assets acquired which arose prior to March 31, 1974, does not, in the opinion of management, require amortization at this time.

(g) *Income Taxes*

The companies have deferred to future periods the income tax resulting from claiming deductions for tax purposes in excess of the amounts charged in the accounts.

(h) *Management Fees*

The Company and certain subsidiaries provide management and investment advisory services to mutual funds and investors on a contract basis in consideration for management fees.

Under some contracts the companies are entitled to earn supplementary fees if the managed portfolio outperforms certain stock market averages.

The income from fees is recognized in the accounts on a time basis over the periods of the contracts.

(i) *Foreign Exchange*

Purchases and sales of foreign investments and income and expenses have been converted to Canadian dollars at the rates of exchange prevailing on the respective dates of such transactions.

Short-term notes in foreign currencies held at the year end have been converted to Canadian dollars at the rates of exchange prevailing at the balance sheet dates.

2 Acquisition of subsidiary's capital stock from minority interest

During the year a subsidiary company, Gdn. Ventures Limited, acquired all of its outstanding capital stock held by minority shareholders. The acquisition was accounted for by the purchase method and the consideration paid was as follows:

Cash	$ 186,449
Investments – at a value ascribed by the directors	162,059
Total consideration for 56,668 common shares	348,508
Net book value of minority interest at date of acquisition	398,435
Excess of net book value over cost of shares acquired	$ 49,927

This excess was applied to reduce the carrying value of certain investments held by the subsidiary which at that time had a depressed market value and were subsequently sold during the year.

3 Fixed assets

	1976	1975
Furniture and equipment – at cost	**$ 187,917**	$ 168,136
Leasehold improvements – at cost	**72,904**	72,904
Revenue-producing video tapes – at cost	**119,766**	–
	380,587	241,040
Accumulated depreciation and amortization	**159,008**	121,644
	$ 221,579	$ 119,396

The depreciation and amortization expense for 1976 and 1975 was $38,365 and $16,222 respectively.

4 Long-term debt

	Outstanding at December 31, 1976
The long-term debt consists of:	
(a) 7½% subordinated convertible debentures of a subsidiary company, Mutual Funds Management Corporation of Canada Limited due January 10, 1978.	$ 135,000
These debentures are secured by a floating charge on the assets of Mutual Funds Management Corporation of Canada Limited and are convertible at the holders' option into shares of Guardian Capital Group Limited on the basis of $9.20 per share or, if called for redemption by the company before the due date, on the basis of the lessor of $9.20 per share or 85% of the quoted market price per share at the date of conversion. The interest expense was $10,443 and $13,954 in 1976 and 1975 respectively.	
(b) Interest free note payable by a subsidiary company, Guardian Growth Financial Services Limited secured by revenue producing video tapes.	75,583
The note is repayable in ten equal annual instalments commencing January 2, 1978, with such instalments to be accelerated to the extent that revenues from the video tapes are required to be applied against the balance outstanding	
	$ 210,583

5 Capital stock

During the year the Company cancelled 226,900 of its own shares which it had acquired in 1975 and the number of authorized and issued shares were reduced accordingly. The Company also acquired 335,966 of its own shares during the year for $1,503,024 cash. 80,000 of these shares were reissued for $344,000 cash. The remaining 255,966 shares have been cancelled subsequent to December 31, 1976.

6 Employee stock options

During the year the employee stock option plan was terminated and all outstanding options were cancelled.

7 Share purchase warrants

As at December 31, 1976, 60,416 authorized but unissued shares of the Company's capital stock were reserved for issuance upon the exercise of share purchase warrants as follows:

Number of warrants	Price per share	Exercisable on or before
20,000	$7.00	April 30, 1977
40,416	$8.00	December 31, 1982

During the year 36,864 warrants exercisable at $8.00 per share on or before December 31, 1982 were acquired by the Company for cancellation for cash in the amount of $11,047.

8 Earnings per share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not materially different from the basic earnings per share.

9 Long-term lease commitment

Minimum annual rentals, under a lease agreement which terminates on August 31, 1982, are approximately $54,000 for 1977 and $57,000 for the years 1978 to 1982.

10 Losses available for income tax purposes

Gdn. Ventures Limited, a subsidiary, has unused accumulated non-capital losses for income tax purposes of approximately $126,000, the details of which are as follows:

Year incurred	Expires	Amount
1972	1977	$ 34,000
1973	1978	87,000
1974	1979	3,000
1975	1980	2,000
		$126,000

In addition, as at December 31, 1976 Gdn. Ventures Limited had net capital losses of $517,000 which can be carried forward indefinitely against taxable capital gains.

11 Statutory information

The aggregate remuneration of directors and senior officers for the year ended December 31, 1976 was $325,669 (1975 – $361,819)

The amortization of deferred selling costs amounted to $25,690 (1975 – $28,250).

12 Contingent liability

A subsidiary company is a defendant in an action for damages of $300,000 arising out of an alleged breach of an investment management contract. On the basis of information provided by the company, legal counsel have advised that the company will probably succeed in the defence of this action. Accordingly, no liability is recorded in the financial statements.

13 Dividends

The Company is subject to dividend restrictions under provisions of the Federal Anti-Inflation Act and Regulations. Maximum dividends which may be paid during the twelve month period ending October 13, 1977 amount to 23¢ per share.

Auditors' Report to the Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statements of merchant banking investments and venture capital investments of Guardian Capital Group Limited and subsidiary companies as at December 31, 1976 and the consolidated statements of earnings and retained earnings, contributed surplus and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Smith, Nixon & Co.
Chartered Accountants

Toronto, February 17, 1977

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario M5E 1H3

Officers and Directors
James F. Cole, *Director*
A. George Dragone, *Director*
William Filipiuk, *Director*
Paul B. Helliwell, *Director*
Robert L. Miller, *Director*
Gurston Rosenfeld, *Director*
Norman J. Short, *President & Director*
Hunter E. Thompson, *Director*
Roger D. Wilson, *Director*
William C. Thompson, *Secretary-Treasurer*
Bernice Wade, *Assistant Secretary*

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